

VZCZCXRO3404
RR RUEHCN RUEHVC
DE RUEHGH #0415/01 1860820
ZNY CCCCC ZZH
R 050820Z JUL 07
FM AMCONSUL SHANGHAI
TO RUEHC/SECSTATE WASHDC 5997
INFO RUEHOO/CHINA POSTS COLLECTIVE
RHEHAAA/NSC WASHINGTON DC
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RUEAEPA/EPA WASHINGTON DC
RUEHGH/AMCONSUL SHANGHAI 6430
RUEATRS/DEPT OF TREASURY WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 02 SHANGHAI 000415

SIPDIS

SIPDIS

DEPT FOR EAP/CM, INR/B AND INR/EAP
NSC FOR WILDER AND TONG

E.O. 12958: DECL: 7/5/2032
TAGS: PGOV PINR SENV EINV ECON CH
SUBJECT: GETTING TOUGH ON THE ENVIRONMENT

SHANGHAI 00000415 001.2 OF 002

CLASSIFIED BY: Kenneth Jarrett, Consul General, U.S. Consulate,
Shanghai, Department of State.

REASON: 1.4 (b), (d)

¶11. (C) Summary: During a June 28 luncheon with the Consul General and the Pol/Econ Section Chief, three of our more astute business contacts assessed that Beijing was starting to get serious about environmental protection. Beijing had begun to tell local leaders to accept lower growth for a cleaner environment. Moreover, environmental protection had become a serious measure of cadre evaluation, with performance directly tied to the clean-up efforts of the largest polluters in their areas. One of the major problems in the central government's efforts to clean up remained the relatively weak oversight capability of the State Environmental Protection Agency (SEPA).
End summary.

Environment Versus Development

¶12. (C) In a Consul General-hosted luncheon on June 28, three Shanghai contacts agreed that there seemed to be a greater focus on environmental protection trickling down from Beijing. Citibank China CEO Richard Stanley said Citi's economists estimated that the cost of environmental degradation was 3 percent of overall GDP growth. According to Shanghai Municipal Government Office of Financial Services Deputy Director General Fang Xinghai, in the past, Beijing set environmental goals that were only carried out by a few localities because the goals were not accompanied by specific directions. Moreover, although Beijing had been touting the concept, no one really knew what was meant by "Green GDP." In the past, local government officials had received no specific directives from the central government; they just heard about the "Green GDP" commitments in the media.

¶13. (C) Beijing was now starting to give clearer direction. For instance, Fang said he had recently met with a deputy party secretary of Wuxi in Zhejiang Province who said that the central

SIPDIS

government was giving specific direction to accept lower economic growth for higher environmental protection. CLSA China Macroeconomist Andy Rothman added that Sinopec and other large

state-run companies had recently been purchasing environmental clean-up equipment that, up until a few months ago, they would not have considered.

Developing Green Cadres

14. (C) Rothman said CLSA had heard that environmental protection was now one of the top five criteria for evaluating cadres. According to Rothman, Beijing would soon be monitoring the largest local industries for pollution emissions and energy usage. The performance of these companies would be directly tied to the evaluations of local leaders. So, for instance, if Shanghai's Bao Steel did not meet its environmental targets for the year, Shanghai leaders would be held accountable (Note: It was unclear if this referred to party or government leaders or both. End note.). The idea, according to Rothman, was to create personal disincentives for local leaders to take bribes from big polluters or "look the other way." If leaders knew they would be held personally accountable ("and take a bullet in their head," as Rothman so colorfully put it), they would be more likely to crack down on polluters, even if it meant sacrificing some economic growth, for the sake of their careers. Rothman also said, in the absence of agreed criteria for Green GDP, there was talk of sending in central government teams periodically to monitor air and water quality.

SEPA Needs to Grow Up

15. (C) Fang noted that one of the outstanding major problems with enforcing environmental protection was the disconnect between the State Environmental Protection Agency (SEPA) and the local Environmental Protection Bureaus (EPB). Under the current structure, local EPBs were horizontally integrated with local governments, not vertically tied to SEPA. This created a situation where the local environmental watchdogs were inclined to favor local interests over central directives. Fang noted a case in Zhejiang Province where a company met environmental

SHANGHAI 00000415 002.2 OF 002

quality standards by diluting its wastewater with clean water. Stanley laughed, saying it wasn't so different from some of the efforts to reduce nonperforming loan ratios in the financial sector by making lots of new loans.

16. (C) Fang said that there were, however, periodic discussions in Beijing to strengthen SEPA. Some were advocating elevating SEPA to full ministerial rank, vice its current "administration" status. There was also discussion about making local EPBs report directly to SEPA. Fang did not believe that things "were to that point" yet.

Comment: "People First" Means a Cleaner China

17. (C) Central leaders are beginning to realize that the costs of development at all costs may be too high. This new focus on "green" cadres and strengthening China's environmental protection regime comes during a period of increasing nationwide--but not interrelated--protests over environmental concerns and local catastrophes and reflect a growing concern that polluted water and air could ultimately destabilize China, despite economic gains. Concern over the environment is part of President Hu Jintao's Scientific Development Concept and Harmonious Society construct, which utilizes a "putting people first" philosophy--part of the party's survival strategy of doing whatever it takes to keep the public content and less likely to call for regime change. The party is also aware that its credibility also hinges on delivering continued economic gains. Like a patient battling multiple life-threatening diseases, the Chinese leadership is seeking to cure the most pressing ailment first, with the hope that the side effects of

the treatment won't exacerbate its other conditions.
JARRETT